"Mahindra Lifespaces Developers Limited Q4 FY-22 Earnings Conference Call"

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Moderator: Good morning, ladies and gentlemen. Welcome to Mahindra Lifespaces Developers Limited Q4 FY22 Earnings Conference Call. We have with us on this call Mr. Arvind Subramanian – MD and CEO, Mr. Vimal Agarwal – CFO and Mr. Sumit Kasat – Head Investor Relations.

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I now hand the conference over to Mr. Arvind Subramanian – Managing Director and Chief Executive Officer, Mahindra Lifespaces Developers Limited. Thank you and over to you sir.

Arvind Subramanian: Thank you very much. Good morning, everyone and welcome to our Q4 FY22 Earnings Call. Firstly, I'd like to thank all of you for participating in this conference call. As you know many of our key operating entities in our residential business, like Mahindra Homes and Mahindra Happinest and all of our entities in our IC & IC business which is Mahindra World City Developers, Mahindra World City Jaipur and Mahindra Integrated Park Chennai and Mahindra Integrated Park Private Limited, all these four entities do not get consolidated on a line-by-line basis.

I'd like to start by sharing a little bit of how we see the macro picture is evolving, then turn my attention to the performance over the year and how that sets us up for the years to come.

Firstly, looking at the macro picture, let me again pick up some indicators both on the B2C side on the consumer side as well as some on the B2B side:

- On the B2C side, we are seeing particularly for residential real estate, a very clear increase in affordability with home loan to income ratio declining to very comforting levels. We are seeing a rise in working population. A mark trend towards the organization in the decade to come from the low 30s to 40% plus and overall, a low mortgage to GDP ratio, so headroom there to grow the book of mortgages. And all of this plays well into what we are seeing as signs of a midterm upcycle and residential demand.
- On the B2B side which is pertinent to our industrial parks business, India is very clearly staking its claim in the global economy. We see this playing out in the global politics as well but certainly from an economic perspective, India is one of the largest economies, the fifth largest in the world. It was also among the fastest growing nations

in FY22 and has embarked on a cycle of massive infrastructure spending. From a geo-economics perspective India is now well positioned to attract manufacturing investment arising from the regionalization of supply chains and the post pandemic world where most MNCs are going to think very differently about their country-level supply chains.

Looking at our performance over the last year, let me start with the photo highlights – the four areas where we have achieved highest ever performance:

- The first is residential presales, coming in at just over 1000 crores.
- The second is our industrial land leasing at just below 300 crores.
- The third is land acquisition for our residential business, roughly 3 million square feet worth of development potential 3800 crores of gross development value.
- The fourth is residential collection that over 1100 crores. All of these have been the strongest ever performance we've done as a Company.

That being said it does feel like it's too early to puff our chest and pat ourselves on the back. It almost feels like we have been proud of being the tallest among the seven dwarfs. There's still a long way for us to go but this is a great endorsement of the direction that we've taken. We are walking the talk in terms of the milestones we've set for ourselves and where we want to be.

I'd like to break up my commentary on our operating performance over the last year into three buckets. And given I personally been on a health journey over the past few months I'm going to use a health metaphor, so the leading indicators, the current health indicators and the trailing indicators. So, the triglycerides, the fasting blood sugars and HBA1C equivalent of our business. Let me start with the lead indicators:

I see kind of four of them being important:

- The first is talent and we've continued to build and invest in building a fantastic team which I am very proud of and I believe is among the best in the peer group, not just at the leadership level but at several levels below that in the organization.
- The second is technology; again an area of continued focus and I use technology in a broader sense to mean not just IT, digital and things like that but also technology in construction, in products and many of you would have noticed some of our recent announcements around sustainability and net zero.
- The third is from a lead indicator bucket is presales on the residential business. As I mentioned a short while back, we've clocked 1028 crores of pre-sales value last year. It's a very healthy mix between the mid-market business and the value housing business and is very broad based in terms of geographic and ticket size contributions. Close to 90% of this actually has come from sustenance sales. Two of our big launches that we were hoping to get through the door in Q4 which was Kanakpura in Bangalore

and Luminaire Tower B moved out into the current financial year and despite that having clocked more than 1000 crores of pre-sales is not just a psychological threshold that we've put our foot across but also a great endorsement of the capability and the commitment of the sales and marketing team.

- Land acquisition is the fourth where again as I mentioned just over 3 million square feet of development potential 3800 crores of GDV we've followed that up just last week with another 1700 crores, so totally about 5500 crores acquired over the last 13 months which is again setting us up very well for the years to come.

In terms of current indicators, I'd pick three of them:

The first is residential collections clocking in at 1100 crores plus, that has led to a very strong operating cashflow of almost 600 crores which is again fantastic and gives us the resources to continue to build on our growth trajectory. The most important which is clearly been a highlight particularly over Q3 and Q4 is the industrial leasing coming in at just below 300 crores, 298 crores to be precise, a fantastic performance by Rajaram and his team to really hit the ground running there. The good thing about that business is, it's a long cycle sales business and therefore we have strong visibility into the current financial year as well. The last year a lot of the heavy lifting happened in Jaipur which was very good to see. This year we are seeing a strong pipeline already building up in Chennai as well in addition to Jaipur continuing to grow from strength to strength. Ahmedabad Origins in Ahmedabad continues to be in a wait and watch mode. We are looking for that right anchor client that can position their part correctly. It looks like that's going to take a couple of more quarters to manifest.

The last bucket was the trailing indicators which is our reported financials would fall into that bucket. That to my mind is still work in process and I expect the strength of the lead indicators and the current indicators to start trickling through and flowing through into the financials over the coming years. One of the things you would have noticed there and I'm sure you have questions on that is a reversal on impairment in Mahindra Homes at Luminaire. I will just offer you one view on that and Vimal will elaborate on the actual accounting and the financials behind that which is that the strong performance in Luminaire, the fact that we were able to not just sell out both Tower A and Tower C which are the two launched towers but also realize a higher price than we had originally envisaged has contributed to this reversal of impairment.

With that let me turn it over to Vimal and I will request him to take you through the highlights of our financial performance.

Vimal Agarwal: Thank you Arvind. Moving on to the performance for Quarter 4 FY22:

The consolidated income stood at Rs. 155 crores as against 33 crores in Q3 F22 and 58 crores in Q4 F21. The consolidated EBITDA including other income and share profits from JVs stood at negative 15 crores as against 20 crores in Q3 F22 and negative 30 crores in Q4 F21. The consolidated PAT after non-controlling interest stood at 137 crores as against 25 crores in Q3 F22 and a loss of 27 crores in Q4 F21.

Financial performance for full year '22 versus '21 is as follows:

The consolidated total income stood at 408 crores as against 188 crores in FY21. The consolidated EBITDA including other income in share of profit from JV stood at 15.5 crores as against a loss of 59.8 crores in FY21. The consolidated PAT after non-controlling interest stood at 154.5 crores as against a loss of 71.7 crores in FY21. Your Company has debt of 280 crores at consolidated level as per Ind-AS accounting while cash in hand and bank as on 31st March was around 225 crores. The cost of debt continues to be very competitive at about 6.5% at consolidated level and 5.7% at MLDL standalone level.

As Arvind mentioned during the year MHPL, specifically Luminaire project saw significant increase in sales with improvement in selling price, velocity, volumes and collections from the project. Also, we had done a buyback of equity shares there. Based on this the Company has evaluated the carrying value of its investment and on the basis of estimated net present value of forecasted cashflow expected to be generated from this entity we have reversed the impairment by about 97 crores in consolidated book. So, these were the key highlights. I'll request if we can open the lines for questions from participants, please. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Adhidev Chattopadhyay from ICICI Securities.

Adhidev Chattopadhyay: First question that I have is on this there's now lot of talk about input cost inflation considering whatever global events have been happening in last few months. Could you throw some light over last 12 months or last 3-4 months what has been the overall increase in construction cost and consulting the mix ready, under construction and new launches whichever is coming up, what would be the overall impact on the input cost and any price hikes you're taking to mitigate the impact? If you could give some overall picture.

Arvind Subramanian: So overall as you rightly pointed out, there's been significant input cost inflation anywhere from 50% to 100% increase in some of the key commodities, steel, cement, aluminium, copper, plastics all have gone through the roof. More recently with oil prices also increasing, that has increased the logistics costs of bringing materials and etc. Overall, we have seen somewhere between a 12% to 15% increase in construction cost which is roughly a 300 to 450 basis points margin impact. The way we are seeking to mitigate that is through three broad buckets of work. One is value engineering and design efficiency. The second is around procurement and contracting techniques. So consolidated buying, long-term contracts, forward purchasing etc. of some of the key materials and the third is pricing. You specifically asked how we are doing on pricing; across the portfolio we've had a discipline of increasing prices quarter-on-quarter by anywhere from 1.5% to 2%. So that is the default increase across the portfolio. Any project that is not able to support that kind of increase has to justify why that increase can't happen as opposed to the other way around and as a result of that plus some other wherever we see demand strength we take price up faster. We've had a price increase ranging between 4% to 14% across the different projects over last year. We are in a good space from a pricing perspective.

Adhidev Chattopadhyay: If we were to understand correctly whatever mitigation on either on the supply side and on the pricing, it should have a minimal impact on the margins, which maybe not more than 2%-3% or is it neutral?

Arvind Subramanian: The way to think about this is, it varies by project and depending on how much is sold early. So, the irony of it is some of our best performing projects where a lot of inventory was sold at launch and are now facing cost inflation is where the margin hit will be the most because we have very little residual inventory left to absorb that cost increase. If you look at it from a portfolio perspective, I'm fairly confident that overall, we are able to mitigate this cost increase.

Adhidev Chattopadhyay: Next question is on whatever land deals we have done in the past, 1300 crores in FY22 and obviously the new one which has announced in Pune, if you could elaborate what are the payment terms? For example, for Pune is it again an outright you are paying all of it upfront or all the staggered payments.

Arvind Subramanian: The most recent transaction in Pune is an upfront acquisition. So, it's fully acquired and then we are responsible for everything you're on from approvals etc.

Adhidev Chattopadhyay: So, we would have utilized the cash on books as on March or some debt to make the payment, right?

Arvind Subramanian: Yes, that's right because a large part, a reasonable part of the cash on books as of 31st March is being used to acquire that land.

Moderator: The next question is from the line of from Parikshit Kandpal from HDFC Securities.

Parikshit Kandpal: If I go back little bit in the history, so we had given guidance of 20 to 25 billion of new GDV additions, earlier we used to smaller projects 500-600 crores. Now the size has gone up, we're doing upwards of 2000-1000. My question is the guidance was based that the 2500 guidance was based on premise of adding 20 billion to 25 billion of new GDV addition. Now we have two things happening. One that the sizes have gone up, so we will get faster approvals and we can bring these projects to market faster because earlier we had multiple projects, now we'll have 2-3 large projects. Second thing is that there has been outperformance and new addition from 20 to 25 billion almost now we are adding close to 4000 crores. Today also in the morning on CNBC you said that we may see a repeat performance in FY23. My question is why are we still maintaining that guidance of reaching 2500 crores of sales? On these two counts we are seriously outperforming. That's my first question.

Arvind Subramanian: Yes, as I said these are two lead indicators that set us up well for the journey going forward but those do need to translate into the current book of business in terms of approvals and launches and then completions. Therefore, I would wait for one or two more quarters to see whether it warrants either an acceleration or an uptake in our guidance for FY25. Let these come to market. I'm happy with where we are on these two parameters in particular and God willing we should meet and exceed our targets that we set.

Parikshit Kandpal: The second question was in the last call, 3Q call we have said that pretty much we have delivered on this close to about 1700 crores, 2000 crores which you have said which should happen by March or April, it happened in April now. You said another 80000 crores of prospect pipeline we are engaging with partners and 25% probability of that happening by September. So, are you on track? Has that 8000 now gone up, after this outperformance are we slowing down on looking at these, so if you can give some color on how the business development in the land side will pan out for next year FY23?

Arvind Subramanian: Parikshit you are cruel, out of the 8000 we have converted 4000 already but you're still greedy for more but look we do have a pipeline. We are back filling that as we converted this roughly 4100-4200. The balance 3800 have grown to about 4500 and continues to grow as we speak. We are seeing very good traction from an inquiry perspective. In particular I talk about two areas where we are looking to build out more rapidly. One is society redevelopment in Mumbai, we are seeing a strong interest and particularly with a brand like Mahindra, many societies feel comforted that they won't be left in the lurch and chasing us once they sign consent with us. Society redevelopment is an area that I'm quite excited about. The second is stressed assets where again we are starting to build the networks into the ARCs and financial institutions who have a bad loan portfolio to start sourcing deals in the stressed portfolio. The third area which I do want to talk about, we had taken a conscious call 2 years back to double down on Mumbai and Pune for the foreseeable 2 or 3 years so that we can go deeper. We've now decided over the next 3 to 4 quarters to also reopen Bangalore. It's not that we ever exited Bangalore and I'd always indicated that Bangalore would be the third market. We feel given the pipeline we've seen and the traction we're seeing on land acquisition that now would be the right time to reopen Bangalore as well. I do expect towards the end of this financial year and going into next year we will start looking at converting some deals in Bangalore as well.

Parikshit Kandpal: Last question will be on, so you did talk about adding talent at all levels. My question was more on the construction side and the choice of vendors. Now we have a portfolio which is the mix is moving towards high realization or better realization from traditionally we're doing affordable housing which is more exposed or sensitive to raw material inflation. We're doing more something like in Kandivali which has been upwards of 13000-14000 realization. I just wanted to understand between the portfolios which has become little more premium. Whether you continue to still believe that affordable will be the way forward given the volatility in raw material prices? Second thing would be, will the vendors be much different to how you worked over the last couple of years since you took over the leadership of the Company in terms of supply chain, vendor, upping up the quality of construction vendors, so if we can just touch upon those softer issues?

Arvind Subramanian: So, in fact you rightly linked it to the talent and the supply chain issue because we recently brought on board a new leader for our contracting and procurement function under Sudarshan, our Chief Project Officer and his mandate very clearly is to build more strategic relationships with key supply chain partners. I see the strategic relationships being struck with more the Tier B+ kind of contractors rather than the very large EPCs. The very large EPCs have their book of business filled with lot of the infrastructure work that is happening in the country. I think we are better served working with the B+ contractors where we can together invest in their capabilities, build more long-term partnerships which are multi project kind of relationships. And that's the direction we are taking. It is still early days. This is an area of very active work for us over the next four to six quarters.

Parikshit Kandpal: On this 38 billion which we did last GDV addition. Today you in morning said that you are looking to repeat that performance in FY23. So, are we geared up to deliver that kind of number or we'll scale down to again that 2000 crores number which we have guided earlier?

Arvind Subramanian: Look I would like to maintain the momentum. There's no sense in scaling down and we're definitely not going to deliberately scale down. That being said I don't want us to be and I've said this before to be doing this with a gun held to our heads saying come what may I need to because we've done 3800 last year, it has to be 3800 plus some delta this year. It has to be the right deal. They have to fit our underwriting criteria, parameters in the right location ready to market. That's more important. Given the pipeline we see I believe it should be accurate about last year's number this year as well.

Parikshit Kandpal: Last thing for Vimal, this year how much of outgo will happen on the pending land payments? What is the total pending land payments and how much of that will happen in FY23?

Vimal Agarwal: As of now we are looking at about 300 to 400 crores of outflow, really depends on our one large transaction of Kandivali. There are few steps which are left before we really consummate the transaction.

Parikshit Kandpal: That's the pending amount and nothing else beyond that, for the current portfolio?

Vimal Agarwal: The amount which I mentioned is combination of three or four transactions which are at different stages.

Parikshit Kandpal: No, I'm talking about the ones that have been announced and not the ones which may get announced and the Pune one and the Kandivali ones, these two are the ones where we have to make payments? So you said the Pune is already large part of that has been taken care in March.

Vimal Agarwal: Pune is completely done, Kandivali we will have about 150 crores of payout, most probably which will come this year.

Parikshit Kandpal: Its pending or like overall?

Vimal Agarwal: This is the initial one which will go.

Parikshit Kandpal: But the overall 300 to 400 will happen this year including some more deals which may happen during this year, right?

Vimal Agarwal: That's right.

Moderator: The next question is from the line of Manish Agarwal from JM Financial.

Manish Agarwal: My question will be pertaining to the Kalyan launch which we have done, so how do you view this? We have done 56 crores quarter sale, so is it good, bad, is the momentum expected to accelerate going forward? That would be my first question.

Arvind Subramanian: So, look candidly it's not great. I would have liked to see more. That being said it is roughly four weeks of performance in the last financial year. There is a runway into all of this year. The feedback we have from customers is they really liked the product. It's a very strong endorsement of the product. I believe it will build up over this year. It is not a project that has shot through the roof at launch but that's fine. We will have a mix of those kinds of projects.

Manish Agarwal: Any traction which we see in the Kanakpura launch?

Arvind Subramanian: Kanakpura launch early response has been fantastic. We are still in the pre-booking phase. We will start bookings from this weekend. The enquiries and initial kind of book building on that has been fantastic. Exceeded my expectations.

Manish Agarwal: For FY23 the projects which we have already acquired all of them are likely to be launched along with Ghodbunder road?

Arvind Subramanian: Ghodbunder could go into first of next year, first half of next financial year. Pimpri, Pune, both the Pimpri land parcels as well as Kandivali we are trying to bring into market this year.

Manish Agarwal: And Dahisar also?

Arvind Subramanian: And Dahisar.

Manish Agarwal: Lastly on the debt front. So, in the presentation it's written cash position of 145 crores in the residential business with the net debt. So, this includes Pune, Pimpri transaction which was done recently or that will be additional?

Arvind Subramanian: Sorry I didn't understand your question, Manish.

Manish Agarwal: In the presentation the net debt for residential business is given as minus 145 crores.

Vimal Agarwal: This is as on 31st March and it does not include the payout which we did for Pimpri transaction.

Manish Agarwal: So Pimpri will come and land payments for Dahisar and Kandivali will also come through?

Vimal Agarwal: Pimpri is already done in April and for others yes, you're right it will come.

Arvind Subramanian: Dahisar is not ours, it’s a joint development agreement so…

Manish Agarwal: Okay, understood.

Moderator: The next question is from the line of Amit Dalal from Tata Investment Corporation Limited.

Amit Dalal: Going forward you obviously have larger plans than you were even envisaging in the last 2 years. Will you have any capital requirements in terms of equity or will you be able to gear it little more and perhaps that should be enough?

Arvind Subramanian: I think in the near term we will build up a little bit of debt. We have a very low net debt position and I think it makes sense given the low cost of borrowing that we have to leverage in the right way but we don't expect. We will always be prudent with the debt and not leverage to the hilt. This year I don't think we need a capital raise, depending on the momentum we see towards land acquisition this year and going into next year we will take the right calls whether further equity infusion is warranted.

Moderator: The next question is from the line of Himanshu Upadhyay from O3 Capital.

Himanshu Upadhyay: It seems things are moving in the right direction but a lot still needs to be done. My one question was on the residential side we have always stated that at the project level we want to have a 20% margin. But when we look our slide, it says that we had 10% to 11% on 600 crores of revenue what we have done on the residential side segmental. This slide 30 and from here on the launches and projects on hand can we expect the gross margin to improve upwards to at least 20% or you think gross margin will remain around this level only? In your sales expense at the project level is it included into the cost of sales or it is in the other operating expense?

Arvind Subramanian: I'll give you a kind of one response and I will ask Vimal to elaborate on that. So, one, I do expect margins in the mid-teens and project IRRs in the low 20s as I have said in the past. The challenge with looking at these financials in a growth phase of the business is, there is a mismatch between when the costs flow through and when the particularly period costs, when the period costs flow through to the P&L and when the revenue recognition of the project happens. So, you're right if you look at last year's financials, it does look like a 10% margin. But as I said there's a timing mismatch between some of the costs get booked and when the corresponding revenue gets booked, Vimal you want to elaborate further?

Vimal Agarwal: As Arvind said, there are couple of specific points which I want to highlight here. For example, if you look at Luminaire project which we talked about earlier on the call, there are two things. One is so the number of 657 crores you're seeing on in the investor presentation actually is a straight submission and to Luminaire because in March ‘20 we had moved to a straight to net realizable value accounting. So, the upside or the gain on performance for that project is actually reflecting in that 97 crores number of exceptional gain. That's basically is about 40% of 657 is coming from Luminaire, the performance is reflecting in the exceptional gain there. That said, the other two points which Arvind actually highlighted is the marketing expense for example sales on resi side this time is upwards of 1000 crores and all of that marketing expense is right now getting improved and reflecting in these numbers. In addition to that MHPL Luminaire again was actually an area share agreement and therefore all the sales expenses of that, because this year we focused on selling partner share completely and therefore whatever is left over will be almost 95% of the leftover is ours. We are focused on liquidating partners inventory which is Ireo in this case and therefore the brokerage expenses have got also booked into these numbers which are upwards of 10-11-12 crores. So, these are few of the examples but coming back to the larger point which…

Himanshu Upadhyay: The sales expenditure, is it booked in cost of sales or it is in other operating expenses?

Vimal Agarwal: It would be in other expenses. The cost of sales for which the revenue is getting reported is part of cost of sales, for example our normal brokerage is there but marketing expense will be in other expenses.

Himanshu Upadhyay: So, Luminaire, what sales your think, you did and whatever you get to see is included in cost of sales urging to broker margin or broker commissions and cost of sales?

Vimal Agarwal: Yes, that’s right Himanshu. Absolutely right.

Himanshu Upadhyay: Even if we look at this margin or what we have said its mid-teens type of margin. So, breakeven level for the companies, at least 1500 crores type of because my other operating expense will also increase an inflation?

Vimal Agarwal: It will always, yes, that's right. See, two ways to look at it. It will always be dependent on how your other projects are performing and therefore what kind of realization, for example, Kanakpura, as I Arvind mentioned pre-launch response has been extremely good and it's reaching our guardrails. The second point which is also there is this IC business; what you're seeing here is like a completely scenario where IC business overheads are not reflecting there at all because all the costs there what you see it as a resi, is actually resi plus corporate office expenses and to that extent, part of it will always be a problem in terms of allocation between resi and IC that also is there.

Himanshu Upadhyay: In terms of Happinest, the standalone numbers of Happinest when we see, they were into the losses only but with now that business model maturing, has that model started breakeven EBITDA so let's say in the last four quarters also, are we on the breakeven level, at least in one or two quarters or that continues to be the wait has been?

Vimal Agarwal: We are at breakeven level and as Arvind mentioned this is really the project level economics, which will be at play. For example, our Palghar 1 where we completed all our phases in Palghar 1, we are fairly positive there. Similarly, Kalyan 1 is doing wonderfully well and we don't see any challenge versus the project or say underwriting case. So, no issue and you are right that it's maturing well. We do expect the value home segment or the Happinest segment to do very well for us.

Himanshu Upadhyay: In last 3 years, the collections have been much ahead of sales value. But with new launches increasing, can we expect the sales would start increasing ahead of collections and even my cost will be more so let's say construction cost and the sales expenditure will be much ahead of collections and so the cash flows, maybe peaking on operating level?

Vimal Agarwal: You want my cash flow to be negative, whatever I do that's the objective.

Himanshu Upadhyay: I am not wanting but I'm trying to understand because if for 3 years, the collections have been better but have we seen the peak of that from operating level or you think how it will be just to understand now?

Vimal Agarwal: Fundamentally combination of three things which are at play here. One is more internal and fairly close to us is the overall technology leverage, bringing visibility and transparency, ensuring that we are not for example, with the right intent, not waving of interest and therefore driving the collection. If you want to look at the collection aging, its possibly one of the best aging which you will see across the industry, across companies and all of that, that's one. Second is that usually, because there is significant focus which Arvind has brought in on the overall project launch and the payment plans and on IRR, usually the demands are fairly front loaded to ensure that the cash for a project which is doing decent and not great, return positive in fairly the first two or three quarters itself; that's second. Third really is the overall aspiration which we have to reach our FY25 goals. If that aspiration progresses well, I'm sure there will be land acquisition related expense and outflow which will happen and therefore it links back to the other response which Arvind gave in terms of raising funds in this year and in subsequent years.

Arvind Subramanian: But look at a broader trend, one has to see sales and collections moving in tandem. There cannot be a significant gap in those overtime. Right now, we're playing a bit of a catch-up and therefore you're seeing collections ahead of sales. But as we grow the business, the two will move largely in tandem. The second thing that I would want you to look at kind of side by side is the three numbers of areas. Area launched, area sold and area delivered. Again, in a growth stage of the business, those three numbers would be slightly different, but in a mature business, those three numbers will start moving in tandem. If you look at last year, for example, we had roughly 1.3 million plus or minus in each of these three buckets, 1.3 million square feet launched, 1.3 million square feet sold and 1.3 million square feet delivered.

Himanshu Upadhyay: This Palghar project, in one of the earlier calls, we had stated that we want to have at least 60% sales in the means Happinest type of project at the time of launch that helps in the profitability and because the margins are low so cash positive it starts breakeven. But if a project like this happens means sorry the Kalyan 2, not Palghar, Kalyan 2. What are the levers to improve from here on and what are we doing to improve the cash flow and again, better sales now or in the next two or three quarters? Some thoughts of that will be helpful to understand the Happinest type of project?

Arvind Subramanian: I think firstly it is about being very clear and kind of not defensive about understanding how each launch has performed. In Kalyan 2, we've gone very deep into understanding what has worked, what has not worked. And when I say that there's been strong endorsement of the product, it is not just my belief, it is backed by a significant amount of post-launch consumer research, not just pre-launch consumer research. Now with a strong product in a good market where we've done well, I am very confident we will catch up on our business plan. In fact, we are already tracking do the underwriting business plan. We are not behind our underwriting case. It's been only, 4 weeks as I said of performance that is reflected in the numbers shared with you. So, watch this space. I mean, I don't think it is as alarming a situation as you seem to fear.

Moderator: The next question is from the line of Punit from HSBC.

Punit: My first question is with respect to your marketing expense. How should one think about your marketing expense going ahead? Is it broadly a sum or do you think of it as a percentage of sales and what should that number be?

Vimal Agarwal: One should actually look at the total project lifecycle and therefore like any other product and FMCG or any other industry, you will see a significant investment getting into at the time of launch.

Punit: So, what should that be as a percentage of sales for that, statistically?

Vimal Agarwal: It will vary in the range of 2.5%-3.5% over the life cycle of the project, is what I will say.

Punit: Other than salaries and all, would there be any other overheads that one needs to consider?

Vimal Agarwal: As in?

Punit: In terms of overheads there will be, obviously corporate overheads and employee salaries? Anything else that does not get accounted in your cost of material?

Vimal Agarwal: We account for everything which can be directly correlated with that project or a launch. We don't leave anything unallocated or anything which should be allocated is not left behind.

Punit: My second question is, can you give some color on what you are seeing on the land acquisition side and your JV-JDAs and society redevelopment? Everybody's seems to be talking about these things. Are you seeing any increase in competitive intensity there or it is just a reasonable size?

Arvind Subramanian: We are seeing a lot more activity from competitors and just like we are wanting to grow, all our competitors are wanting to grow as well so it's not surprising. That being said, we are also equally seeing a clear preference among landowners and I have talked about society redevelopment in both these categories. We are seeing a preference to do business with the larger developers where financial closure or transaction is not a risk, right. So, one of the challenges that happened in the past with land acquisitions, or land sales, if I were to look at it from a seller's perspective, is term sheets get signed, but then there's a protracted period when the buyer is still not achieved financial closure and therefore the landowners kept hanging. I think there's a clear sentiment being expressed that working with developers like us, there is confidence that once we sign a term sheet, we will be able to close the financials very quickly.

Punit: And versus a year back, or maybe 2 years back, are you seeing an implicit demand for a higher land price or higher share of profit from the land owner partners?

Arvind Subramanian: Look, unfortunately with newspaper headlines screaming out that there is a up cycle in real estate, and there's a boom, etc., landowners also read the same newspapers that we read and their expectations do go up. So, yes, there is a heightened expectation but that's part of our business and we are sticking to our guns in terms of the kind of returns and underwriting parameters that we have.

Punit: Versus for example there is 3800 crores of GDV deals that you culminated last year, the year before that the implicit share of profit would still be largely the same?

Arvind Subramanian: Implicit share of?

Punit: Share of profit that you will get from those deals itself remain unchanged, some of which is…?

Arvind Subramanian: The underwriting parameters as I said remain intact. We've not dropped those thresholds at all.

Punit: In your underwriting parameters are you building in higher realizations than what you were a year back?

Arvind Subramanian: We are building an both higher costs and higher realization because cost to construction has also gone up.

Moderator: We'll move on to the next question that is on the line of Pritesh Sheth from Motilal Oswal.

Pritesh Sheth: Traditionally we have been, we were doing smaller size projects with multiple phases of small, broken on into small phases. Now, the scale of projects has increased to 1-1.5, even to an extent 2 million square feet. So now will the phase launches that we do, would be much higher in size to execute those projects quickly than what we used to do it earlier?

Arvind Subramanian: Hard to give a general rule on that. It's very tactical. It depends on the competitive nature of that particular micro market. In certain situations, we want to make a quick entry with a small phase so that we plant our flag and announce our presence in that micro market. In certain cases, we want to bring a substantial amount of inventory together because we believe that's what is right for that particular situation; it's about demand and supply and constantly monitoring both. There is no general rule that we will follow on that.

Pritesh Sheth: But overall, when we are entering the project size of 1-1.5 million square feet, what is the timeline that we are looking at to exit those projects 5-years, 6-years, probably what's the internal timeline that we set out?

Arvind Subramanian: We will still try and complete those within 5 years. That's very important for the economics because as you know the longer the project stretch, the IRR drags and with it, particularly in an inflationary cost environment, you're subject to more cost risk as well.

Pritesh Sheth: And second question is on your breakthrough transaction at the Kandivali parent land. We have acquired the first phase of the 9 acres and the potential, we know that obviously it's higher than that. From here on I mean, would the second transaction that we might do would at least have a gap of like 3-4 years till the time we generate cashflow, enough cash flows to pay out the successive land costs that we might have to incur for acquiring the next phase or how are we thinking about it?

Arvind Subramanian: Honestly, too premature, because there's a line of sight into the next phase is still being developed, but yes, it's not eminent, it's going to take little bit of time.

Moderator: We'll move on to the next question that is from the line of V. P. Rajesh from Banyan Capital.

V. P. Rajesh: My first question is that on the cost side; what kind of inflation are you thinking about from here on? I know you mentioned it was 12% to 15% for the last year but from here on, do you think it will continue to accelerate or the second derivative will come down? How are you thinking about that?

Arvind Subramanian: We are planning for about 8% to 10% going forward as well because all the advice and views we are getting from the economists, including our group economists, is that inflation is here to stay. It's not a temporary phenomenon. It's not just a Ukraine war issue. There is a structural reason why inflation will continue for several quarters. At least in our underwriting cases, we are planning for an 8% to 10% cost inflation in the years to come as well.

V. P. Rajesh: As you're launching the products, are you then spacing out the inventory you release at the launch, etc. maybe make it more just so that we don't have to increase it too much. How are you thinking about how much inventory you want to sell at launch?

Arvind Subramanian: Yes, absolutely, you're absolutely right. We are going to stagger out our launched inventory and sales as well. Earlier I was of the firm view that sell as much as possible, as quickly as possible because that made sense in a stable cost environment but now one has to try and sell closer to the cost incidence rather than too far ahead of the cost incidence.

V. P. Rajesh: My second question is regarding the society redevelopment projects you are taking on. If you can elaborate a little bit as to what these projects can look like in terms of timeline, in terms of square footage, are they going to be large or quick turnaround projects; that would be just helpful?

Arvind Subramanian: That’s a very interesting space and we are getting our arms around it and as we get deeper, I'm getting more excited by it. The size of the transaction varies from a fairly small individual projects to very large societies. The small projects are still attractive because what we are finding is the minute you start engaging with one society in a particular location; the neighboring societies also start engaging with you. What will likely end up happening here is a cluster or a string of pearls kind of an approach where in a very small catchment area, you're doing two or three small sized projects, which aggregated together is a meaningful size. We are thinking about that space a little bit differently where we're looking at clustering these four- five societies. It's not that their land will get aggregated and it will become one society. There will still be individual developments, but from a management perspective, sales perspective, overhead's perspective etc. you have still a 500 to 1000 crores GDV to play within a 2-kilometer radius.

V. P. Rajesh: Your minimum threshold will be around 500 crores across multiple housing society, which makes sense for you to take up such projects? Is that the general way to think about it?

Arvind Subramanian: Yes, that’s right.

Moderator: The next question is from the line of Rohith Potti from Marshmallow Capital.

Rohith Potti: My first question is a follow-up on the initial comments that you have shared. You talked about how the industry is shaping up right now, but in general, recently we've seen letters from CREDAI, etc. complaining about the rising cost environment and about how some developers are stopping work etc. If you could share the general scenario of how you see the industry right now in terms of the reduced competition in terms of launches, in terms of number of participants, looking for land parcels etc. that would be great?

Arvind Subramanian: Look, one trend that's very clear Rohith is, the formalization or consolidation of the supply side. We've seen this over the last 5 or 7 years that you tracked the numbers in each of the Tier I cities, the top five to seven players are starting to contribute as much as 30% of the sales value, which used to be in the 10% to 15% range. So, it's grown quite a lot and so therefore, that is a vindication for the direction we've taken about going deeper into a few markets rather than spreading ourselves too thin. A cost inflation is certainly a pressing topic. It's something that is hurting all of us in the industry. I think, as I mentioned in a response to an earlier question, it's not just a here and now thing where we can bury our head in the sand and say, let's get through one or two quarters and life will be great after that. We do need to plan for a sustained period of cost inflation and gear our business model to that. We are tuning to that as again, responding, I responded to an earlier question by adjusting our launch strategies about how much inventory to bring, how quick, how closely can we time sales to construction spend so that we not have a big mismatch between those and being exposed to a high amount of cost inflation, but also working very hard with top quality consultants. Many of them international consultants now on design, we think there's a lot of value to be extracted still from optimization of design and construction methods.

Rohith Potti: My second question is something that you referred a couple of times that we've not just seen the entire top management but we have brought in a lot of good hires in the middle. So, in FY what you have done is sort of rebuilding the firm or rebuilding the culture from scratch because with so many new people coming at the top and at the middle level, that will change towards what the top management is looking towards achieving. I'm just curious to know so how has that experience been basically rebuilding the firm and has there been any sort of attrition? What are those numbers? We see current attrition in IT and other sectors but is that a worrying real estate right now, if you could elaborate on that particular aspect, that would be great?

Arvind Subramanian: Firstly, let me correct the impression if I've created a wrong impression. It's been a good mix of people who've been with us for a period of time, as well as new talent that's come in. It's not just that we are clearing the decks and replacing all roles with new people. So, I must make that clear. What we have done is, spent a lot of time simplifying the organization structure, empowering the people in their role and giving them their line of sight into how their professional growth will happen over the next few years. This is something I deeply believe is going to be our competitive advantage in the years to come. And I am fully aware, I'm talking to a group of hard-nosed financial analysts and talking the stops-start but I know all of you do appreciate this. Real estate is not a sector that has traditionally been a talent magnet but we are in the fortunate position because of our parentage being part of the Mahindra Group where we are able to attract great talent. Very often talent from outside the real estate sector but even within the real estate sector from brands that are much larger than us. Our recent hires have come from places like

Godrej and Sobha etc. and they've chosen to join us because they believe in or they buy into what we're trying to do here. That is to my mind kind of very important. Getting people who are seeing the mid to long-term story, wanting to be part of that, wanting to put their shoulder to the wheel and giving them the right set up to be able to express themselves and deliver against that is what a large part of I see my job as construction, sales, finance, marketing, etc. will be done by the respective leaders. I don't add as much value there.

Rohith Potti: Just a follow-up. In the top management and the senior hires that you've done over the last couple of years. In general, is there been any attrition or is there anything to worry about on that front?

Arvind Subramanian: Top management, we've not seen a lot of attrition, top two layers of the organization, but we are starting to see just like everybody else that the talent market is heating up. We are constantly tracking that and staying competitive in terms of our overall offering. It's not always only remuneration. As it always is a combination of a career growth, professional development and remuneration.

Moderator: The next question is from the line of Shreyans from Equirus Securities.

Shreyans: One pertaining to our resi business. One that probably we are hearing a lot of noise, in terms of interest rate hike. In case if that is to happen, how do you see the scenario dwelling? Do we foresee any risks to our sales numbers as far as the resi is concerned? Second, in terms of our IC & IC business, just wanted to understand how much capital we have deployed till date and how much we will have to deploy more in terms of activating the origins, which has been lined up?

Arvind Subramanian: On the mortgage rate or the interest rate hikes that are expected in the quarters to come, I am not unduly worried about that and the reason for that is, we just talked about the talent market becoming competitive and compensations going up. Particularly for the salaried segment, wage growth is going to be much higher than the growth or the impact of the higher interest rates. Also, the segments we've chosen to play in which is the mid-market and the value housing segments. Very often our buyers have been planning for several years to buy their apartment there. They're not going to be dissuaded by a 50 basis points hike in mortgage rates. What ends up happening, if that happens is the purchase may get deferred by 3 months. They'll say I'll save up a little bit more so that I can increase my down payment, reduce my mortgage so that my EMI remains in the range that I wanted to be in. But they will not say because the mortgage rates have gone up from 6.3% to 6.5% or 6.7%, I won't buy a home anymore and that I don't see that happening. On your question on the Industrial Park side, most of the investment cycle is behind us. We don't expect significant capital allocation to that in the years to come.

Shreyans: A couple of follow-up questions. One in terms of price hike, how much price hike do you expect in FY23 given that wherein probably Feb-March witnessed the majority of the price increase in terms of raw materials?

Arvind Subramanian: As I said, we have a discipline of 1.5% to 2% every quarter. So that is the bare minimum I expect, projects did perform well, we will take price up faster than that.

Shreyans: In terms of coming back to IC & IC, third quarter we saw some up-move and some traction as far as IC & IC but probably 4Q, we saw that trending down. Just wanted a sense whether we are on that front whether we are moving in the right direction, in terms of the sales?

Arvind Subramanian: First quarter, we did 70 crores of IC leasing. That's not a small number. So, I think IC is on a very strong, we get as I said, in my opening remarks, the team has done a fantastic job. Pipeline going into this year is also very strong. I'm confident we will continue to do well in that business.

Shreyans: You foresee that going or at least consistently doing around 130-140 odd acres?

Arvind Subramanian: Look, as I have said by 2025, we wanted to be a 500 crores annual run rate. That's what we are hinting towards.

Moderator: Thank you. Ladies and gentlemen that was the last question. For any further questions or clarifications, please get in touch with the Investor Relations team. I now hand the conference over to Mr. Arvind Subramanian for his closing comments.

Arvind Subramanian: Thank you. Thank you very much. Look just by way of a quick summary. As I said, we have a very keen eye and tracking very closely the lead indicators of our business, the current health indicators, as well as making sure that our trailing indicators are also reflecting that performance and all three moves in tandem. On the residential side, we continue to build out for growth. We are seeing a good pipeline from a land acquisition perspective. We've had strong impactful launches and continue to see a preference for our products and our brand and on the Industrial Park side, as we just discussed in the last question, we are seeing an excellent runway into FY23 and beyond and are confident that the team is well set up to deliver a strong performance this year as well. So, thank you for your support and do keep the faith. I think this is still a story that is being scripted by no means are we sitting on our backside thinking that we've achieved anything so far, there's still a lot more to be done.

Moderator: Thank you. Ladies and gentlemen, on behalf of Mahindra Lifespaces Developers Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.